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Private Sector Division

Financial report and statements for the year ended 31 December 2003

Summary

This document presents the results of the UNICEF Private Sector Division (PSD) for the year ended 31 December 2003.

The total net income from PSD activities for the year was $289.4 million for regular resources, $8.0 million (2.9 per cent) higher than the $281.4 million achieved in 2002. The total net income for 2003 includes $47.1 million from UNICEF cards and gift sales, $249.5 million from private sector fund-raising activities, a positive exchange rate adjustment of $6.3 million and investment fund expenditures of $13.5 million. In addition, $172.2 million ($141.9 million in 2002) was raised from private sector fund-raising activities, which were earmarked for other resources. The net consolidated income for 2003, including both regular and other resources, amounted to $461.6 million; an increase of $38.3 million compared to the 2002 net consolidated income of $423.3 million. Included in the 2002 net consolidated income was a one-time legacy of $56.2 million. Excluding this legacy, the net increase in 2003 as compared to 2002 was $94.5 million, or 25.8 per cent.

* E/ICEF/2004/12.

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Foreword

I am pleased to report that in 2003 the Private Sector Division (PSD) achieved a net contribution to UNICEF regular resources income of $289.4 million.

We are grateful to the National Committees for UNICEF and other cooperating groups whose staff and volunteers sold UNICEF cards and gifts; to the hundreds of artists, museums and art collectors whose works were made available, at no charge, for greeting card designs; and to the millions of individuals across the world who purchased UNICEF cards and gifts and/or donated their time and money to the cause of UNICEF throughout the year. We also wish to recognize that the above achievements are increasingly possible because of the successful fund-raising efforts undertaken by the National Committees for UNICEF and UNICEF field offices from their roughly 6 million donors, and the millions worldwide who responded with their individual contributions.

(*Signed*) Carol **Bellamy**
Executive Director

Financial report for the year ended 31 December 2003

A. An overview of the results

1. The total net income contribution to UNICEF regular resources from PSD activities was $289.4 million. This compares with $281.4 million in 2002, an increase of $8.0 million (2.9 per cent). The contribution consists of $47.1 million net operating income from the sale of UNICEF cards and gifts, $249.5 million net operating income from private sector fund-raising activities, and a negative adjustment for other charges and provisions of $7.2 million. The negative adjustment consists of investment fund expenditures of $13.5 million and a favourable exchange rate adjustment of $6.3 million.

2. Gross proceeds from UNICEF card and gift sales amounted to $151.5 million, compared to $125.9 million in 2002. The increase in gross proceeds was partly due to the weakening of the United States dollar against primarily the Euro and the Japanese yen, and partly due to an improved product mix and an increase in sales prices in some markets.

3. The net operating income from private sector fund-raising activities related to regular resources was $249.5 million in 2003 compared to $236.8 million in 2002, an increase of $12.7 million. In addition, $172.2 million were raised from private sector fund-raising activities, which were earmarked by partners for allocation to other resources, an increase of $30.3 million compared to the $141.9 million raised in 2002.

B. Financial statements for the year ended 31 December 2003

4. The three financial statements that follow are supported by the notes to the financial statements, including a summary of significant accounting policies (paras. 6-15).

STATEMENT I

Statement of income and expenditure for the year ended 31 December 2003

(In thousands of United States dollars)

	Note	31 December 2003		31 December 2002		Variance Increase/(decrease)	
			%		%		%
Gross proceeds - cards and gifts	3	151,469	100.0	125,925	100.0	25,544	20.3
Less: National Committees' expenditures, commissions and direct expenses at field offices	4	52,413	34.6	38,681	30.7	13,732	35.5
Net proceeds		99,056	65.4	87,244	69.3	11,812	13.5
Less: Cost of goods delivered	5	29,128	19.2	24,357	19.3	4,771	19.6
		69,928	46.2	62,887	49.9	7,041	11.2
Less: Operating costs	6	20,213	13.3	20,262	16.1	(49)	(0.2)
Provision for uncollectible accounts receivable	7	8,148	5.4	10,235	8.1	(2,087)	(20.4)
		41,567	27.4	32,390	25.7	9,177	28.3
Add: Other income	8	5,511	3.6	5,461	4.3	50	0.9
Net operating income – cards and gifts	9	47,078	31.1	37,851	30.1	9,227	24.4
Net operating income – Private sector fund-raising *a/*	10	249,517		236,844		12,673	5.4
Less Investment Fund Expenditures *b/*	11	13,502		12,749		753	5.9
Total net operating income	12	283,093		261,946		21,147	8.1
Less: Exchange rate adjustment	13	(6,323)		(19,396)		(13,073)	67.4
Prior years' adjustments(gain)	14	-		(38)		(38)	(100.0)
Total net income	15	289,416		281,380		8,036	2.9

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

a/ Excluding $172.2 million recognised as other resources compared to $141.9 million in 2002. This is shown in the UNICEF Financial Statements.

b/ Investment fund expenditures for Market Development, Fund-raising Development and Nordic Investment Programmes were previously shown as "Other Charges".

Ellen Yaffe, Comptroller
(Signed)

Carol Bellamy, Executive Director
(Signed)

STATEMENT II
Statement of assets and liabilities as at 31 December 2003
(In thousands of United States dollars)

	Note	As at 31 December 2003		As at 31 December 2002		Increase/(decrease)	
ASSETS							
Accounts receivable	16	312,504		258,865		53,639	
Less: Allowance for exchange rate fluctuation and uncollectible Accounts		28,241		25,285		2,956	
Net accounts receivable	17		284,263		233,580		50,683
Inventory	18		5,046		5,312		(266)
Prepaid expenses	19		42		137		(95)
Capital assets, net of Accumulated depreciation	20		75		178		(103)
TOTAL ASSETS			289,426		239,207		50,219
LIABILITIES							
Bank	21		910		537		373
Accounts payable	22		5,798		5,216		582
UNICEF inter-office account	23		282,718		233,454		49,264
TOTAL LIABILITIES			289,426		239,207		50,219

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

Ellen Yaffe, Comptroller
(Signed)

Carol Bellamy, Executive Director
(Signed)

STATEMENT III
Statement of the results for the year ended 31 December 2003 compared with the approved budget
(In millions of United States dollars)

	Note 24	Actual	Approved budget a/	Variance increase/(decrease) $	Variance increase/(decrease) %
Income					
Gross proceeds - cards and gifts a/	(a)	151.4	137.0	14.4	10.5
Less: National Committees' expenditures b/	(b)	48.6	34.2	14.4	42.1
Net proceeds		102.8	102.8	-	-
Add: Other income		5.5	7.5	(2.0)	(26.7)
Net proceeds - cards and gifts		108.3	110.3	(2.0)	(1.8)
Net proceeds - private sector fund-raising	(c)	258.5	174.0	84.5	48.6
Total net proceeds (regular resources)	(d)	366.8	284.3	82.5	29.0
Expenditures					
Cost of goods delivered		29.1	30.5	(1.4)	(4.6)
Marketing expenditures b/		25.9	22.0	3.9	17.7
Support Services		15.2	16.4	(1.2)	(7.3)
Investment Fund Expenditures		13.5	15.0	(1.5)	(10.0)
Total expenditures		83.7	83.9	(0.2)	(0.2)
Total net income before adjustments		283.1	200.4	82.7	41.3
Adjustments					
Exchange rate adjustment		(6.3)	-	(6.3)	-
Total net income after adjustments - regular resources	(e)	289.4	200.4	89.0	44.4
Add: other resources - private sector fund-raising		172.2	170.0	2.2	1.3
Net consolidated income - regular resources and other resources	(f)	461.6	370.4	91.2	24.6

a/ In accordance with Executive Board decision 2003/4, paragraph 2, the approved budget reflected is the high projection (column III, Table 7 of document I/ICEF/2003/AB/L.3).

b/ National Committees' expenditures exclude commissions and direct expenses at field offices. These are included in marketing expenditures.

C. Notes to the financial statements

Note 1. Objectives and activities

5. PSD, in cooperation with National Committees for UNICEF, field offices and others, raises funds for children. Consequently, this makes people aware of UNICEF activities and gives them the opportunity to be involved in its work.

Note 2. Summary of significant accounting policies

6. The accounts are maintained in accordance with the Financial Regulations and Rules of the United Nations Children's Fund (E/ICEF/FINANCIAL RULES/1) and with the Financial Regulations and Rules of the United Nations Children's Fund, Special Supplement, Greeting Card Operation (E/ICEF/FINANCIAL RULES/1/Add.1).

7. The accounting period (fiscal year) of PSD is 1 January to 31 December, pursuant to Executive Board decision 1996/22 C.5 (E/ICEF/1996/12/Rev.1).

8. The accounts of PSD are incorporated into the UNICEF accounts as at 31 December. Consistent year-end cut-off procedures are in effect to incorporate PSD accounts into the UNICEF financial statements.

9. The accounting unit is the United States dollar. The equivalent in United States dollars of other currencies is established on the basis of the United Nations operational rates of exchange on the transaction date.

10. Gross proceeds from the sale of UNICEF cards and gifts are accrued on the basis of the revenue and expenditure reports received from sales partners shortly after year-end. They are recorded in local currency and converted into United States dollars at the United Nations operational rates of exchange prevailing on 31 December. The accrual is adjusted in the following year upon receipt of the final revenue and expenditure report. In cases where the provisional revenue and expenditure report is not received from a sales partner in time for the year-end closure, gross proceeds are accrued based on deliveries to that sales partner for the year less an allowance for unsold goods.

11. Assets and liabilities in currencies other than United States dollars are valued for accounting purposes at the prevailing United Nations rates of exchange. Any variance in valuation caused by fluctuation of those rates is accounted for as income or loss and included in the statement of income and expenditure under exchange rate provision/adjustment. The policy of making an allowance of 10 per cent of non-United States dollar-denominated outstanding accounts receivable as at 31 December as a provision for delays in the collection thereof, is discontinued effective 31 December 2003. In accordance with PSD accounting policy, a provision to cover accounts receivable that are considered doubtful for collection may be established. This provision, if made, is shown as a deduction from the accounts receivable on the statement of assets and liabilities.

12. The inventory of work in process and finished goods is valued at standard cost, while raw materials are valued at moving average cost. It is PSD policy to write-down unsold cards and dated gifts at the end of the first sales campaign year and all other gifts at the end of the second sales campaign year. Gifts that have been written-down and carried forward are valued at their add-on cost. All publicity and

promotion materials produced in the current campaign year, but relating to future campaign years, are shown at standard cost and included in inventory.

13. Capital assets costing $100,000 or more are capitalized and depreciated over their estimated useful life.

14. Liabilities are accrued in the PSD accounts following recognized accounting standards, and appropriate cut-off procedures are followed consistently.

15. Income from private sector fund-raising activities and related expenses are recorded separately in the PSD accounts. The net proceeds raised by National Committees from private sector fund-raising activities are recorded based on the provisional revenue and expenditure reports submitted by them at the year-end. These are then adjusted in the following year upon receipt of the final revenue and expenditure reports.

Statement I

Note 3. Gross proceeds — cards and gifts

16. Gross proceeds for 2003 amounted to $151.5 million compared to $125.9 million in 2002, an increase of $25.5 million (20.3 per cent). The increase in gross proceeds was primarily due to the weakening of the United States dollar against the Euro and the Japanese yen, and partially due to the product mix. Cards sales volumes declined marginally, but this was offset by higher prices in some markets.

Note 4. National Committee expenditures, commissions and direct expenses at field offices

17. This item consists of the expenditures recorded by National Committees and other partners, commissions paid to consignees and direct operating expenses at UNICEF field offices. For 2003, this amounted to $52.4 million, an increase of $13.7 million (35.5 per cent) compared to 2002. Of this increase, $13.6 million related to National Committees and $0.1 million to UNICEF field offices. A breakdown is given below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2003	*2002*	*$*	*%*
National Committee Expenditures/commissions	49.3	35.7	13.6	38.1
Field offices' expenses	3.1	3.0	0.1	3.3
Total	**52.4**	**38.7**	**13.7**	**35.5**

Note 5. Cost of goods delivered

18. The cost of goods delivered, freight, duties and taxes, and promotion materials amounted to $29.1 million, an increase of $4.8 million (19.6 per cent) compared to 2002. This was made up of an increase of $3.6 million (21.2 per cent) in the direct cost of goods, an increase in the combined costs associated with freight, duties and

taxes of $0.8 million (42.1 per cent) compared to 2002 and an increase of $0.4 million (7.4 per cent) in the costs of promotional materials. These increases are primarily attributable to a 16- per-cent decline in the United States dollar/Euro average exchange rate from a year ago. Details are presented below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2003	*2002*	*$*	*%*
Cost of goods delivered	20.6	17.0	3.6	21.2
Freight, duties and taxes	2.7	1.9	0.8	42.1
Promotion materials	5.8	5.4	0.4	7.4
Total	**29.1**	**24.3**	**4.8**	**19.6**

Note 6. Operating costs

19. Operating costs amounted to $20.2 million in 2003, a decrease of $0.1 million (0.2 per cent) compared to 2002, this in spite of the negative impact on expenses of the weaker United States dollar in 2003. An 11.1-per-cent increase in costs related to card and gift sales was offset by a 4.0-per-cent decrease in operating costs of Operations and Finance. The expenses are summarized below:

	(In millions of United States dollars)			
			Increase/(decrease)	
	2003	*2002*	*$*	*%*
Card and gift sales	5.0	4.5	0.5	11.1
Operations and finance	14.5	15.1	(0.6)	(4.0)
Director's office	0.7	0.7	-	-
Total	**20.2**	**20.3**	**(0.1)**	**(0.2)**

Note 7. Provision for uncollectible accounts receivable

20. The provision for 2003 amounted to $8.1 million, a decrease of $2.1 million (20.4 per cent) compared to 2002. The provision is to cover accounts receivable that may become irrecoverable. Accounts receivable deemed to be irrecoverable are written-off. Nonetheless, PSD continues its efforts to pursue collection of these amounts.

Note 8. Other income

21. Other income is based on income reported by partners by 31 December and comprises the following:

(a) Income from licensed products, which includes royalties from special programmes, income from Nippon Telegraph and Telephone Corporation's Pressed Flower Telegram Programme in Japan, and income from the sale of National Committee products and other items;

(b) Donations, which represent contributions generated through PSD brochures/order forms;

(c) Miscellaneous income, which includes discounts on purchases and miscellaneous proceeds.

22. Other income in 2003 amounted to $5.5 million, the same as in 2002. While miscellaneous income increased from $0.8 million to $1.3 million, the income from licensed products and donations declined by $0.3 million and $0.2 million respectively. A comparison between 2003 and 2002 is summarized below:

	(In millions of United States dollars)		
			Increase/(decrease)
	2003	*2002*	*$*
Licensed products	2.5	2.8	(0.3)
Donations	1.7	1.9	(0.2)
Miscellaneous income	1.3	0.8	0.5
Total	**5.5**	**5.5**	**0.0**

Note 9. Net operating income — cards and gifts

23. For the 2003 campaign, the net operating income from the sale of UNICEF cards and gifts amounted to $47.1 million, an increase of $9.2 million compared to 2002. As a percentage of gross proceeds, net operating income increased to 31.1 per cent from 30.1 per cent in 2002.

Note 10. Net operating income — private sector fund-raising

24. In 2003, total net proceeds from private sector fund-raising activities reported by partners by 31 December amounted to $258.5 million for regular resources, an increase of $13.3 million compared to 2002.

25. As presented in the following table, the net operating income from private sector fund-raising activities related to regular resources in 2003 amounted to $249.5 million compared to $236.8 million (which included a one-time legacy of $56.2 million) in 2002, an increase of $12.7 million (5.2 per cent). Excluding the legacy of $56.2 million, the net increase in 2003 as compared to 2002, is $68.9 million or 38.2 per cent. The net operating income from private sector fund-raising activities related to regular resources was net of the amount retained by the National Committees; operating expenses related to private sector fund-raising activities, including field office expenses; and research and development.

26. In addition to the net operating income from private sector fund-raising activities related to regular resources, $172.2 million was raised and earmarked to various UNICEF other resources projects. This amount is shown as a footnote to statement I in this financial report and included as income in the UNICEF financial statements.

27. Private sector fund-raising expenses for 2003 included $1.5 million for research and development to develop new methods and test fund-raising campaigns.

	(In millions of United States dollars)			
			Increase/(decrease)	
	2003	2002	$	%
Net proceeds				
Less:	258.5	245.2	13.3	5.4
Operating expenses	5.7	5.0	0.7	14.0
Field office expenses	1.8	1.7	0.1	5.9
Research and development	1.5	1.7	(0.2)	(11.8)
Net operating income	**249.5**	**236.8**	**12.7**	**5.4**

Note 11. Investment fund expenditures

28. To enable PSD to continue to fulfil its mandate in raising funds from the sale of cards and gift items and private sector fund-raising activities, the Executive Board approved for 2003 investment funds expenditures, a budget of $15 million, the objective being to increase the capacity of National Committees and UNICEF field offices to build a broader support base in raising funds from the private sector (see E/ICEF/1991/AB/L.6 and E/ICEF/1991/15, decision 1991/35) and for testing and evaluating new income-generating initiatives, with a primary focus on projects offering high rates of return. In 2003, the total expenditure for investment funds was $13.5 million ($12.7 million in 2002).

Note 12. Total net operating income

29. The total net operating income from UNICEF card and gift sales and private sector fund-raising activities amounted to $283.1 million, an increase of $21.1 million (8.1 per cent) compared to 2002. This represents PSD net operating income before exchange rate and prior years' adjustments.

Note 13. Exchange rate adjustment

30. The exchange rate adjustment in 2003 amounted to a gain of $6.3 million, compared to a gain of $19.4 million in 2002. The policy of making a 10-per-cent allowance for delays in the collection of outstanding non-United States dollar accounts receivable on 31 December 2003 is discontinued. Effective 2003, differences on exchange rates are recorded in the financial period in which they arise.

Note 14. Prior years' adjustments

31. There was no prior year adjustment in the current year. For 2002, these adjustments amounted to a favourable $0.04 million.

Note 15. Total net income

32. After deducting non-operating expenses (exchange rate provision/adjustment and prior years' adjustments, if any), the total net income from UNICEF card and gift sales and private sector fund-raising activities in 2003 was $289.4 million, an

increase of $8.0 million (2.9 per cent) compared to the total net income of $281.4 million in 2002, which included a one-time legacy of $56.2 million. Excluding the legacy of $56.2 million, the net increase in 2003, as compared to 2002, is $64.2 million or 28.5 per cent.

Statement II

Note 16. Accounts receivable

33. Accounts receivable include amounts due from National Committees and other partners for revenues from UNICEF card and gift sales, private sector fund-raising activities, royalties and miscellaneous receivables. The gross accounts receivable as at 31 December 2003 amounted to $312.5 million, an increase of $53.7 million over the balance as at 31 December 2002. Part of this increase is due to higher net proceeds from both sales and private sector fund-raising compared to the previous year.

Note 17. Net accounts receivable

34. In accordance with PSD accounting policy (see para. 11 above), a provision to cover accounts receivable that are considered doubtful for collection may be established. For 2003, the allowance for exchange rate fluctuation and provision for uncollectible accounts amounted to $28.2 million. Of this, $9.1 million is for uncollectible accounts and $19.1 million for exchange rate fluctuation brought forward from 2002. PSD will use the allowance for exchange rate fluctuation to offset any exchange loss or bring it to account as income in two equal instalments in 2004 and 2005. Net accounts receivable after deducting the allowance for exchange rate fluctuation and provision for uncollectible accounts of $28.2 million amounted to $284.3 million.

Note 18. Inventory

35. Inventory as at 31 December 2003 amounted to $5.0 million, a decrease of $0.3 million compared to the balance as at 31 December 2002. A comparison is presented below:

	(In millions of United States dollars)	
	2003	*2002*
Raw materials	2.4	2.2
Work in process	0.2	0.2
Finished goods	2.4	2.9
Total	**5.0**	**5.3**

Note 19. Prepaid expenses

36. These represented payments made to suppliers for the production of PSD gifts and promotion materials for 2003 and future campaigns. Prepaid expenses as at 31 December 2003 amounted to $0.04 million, a decrease of 69.4 per cent compared to the balance as at 31 December 2002.

Note 20. Capital assets, net of accumulated depreciation

37. These are stated at cost, less accumulated depreciation (see summary of capital assets as at 31 December 2003 presented below). In accordance with PSD accounting policies, capital assets costing $0.1 million or more are capitalized and depreciated over their estimated useful life. The decrease of $0.1 million in capital assets over the balance as at 31 December 2003 was due to depreciation of production machinery and leasehold improvements during the period. There was no new acquisition in 2003.

	(In millions of United States dollars)	
	2003	*2002*
Production machinery	1.1	1.1
Office equipment and leasehold improvements	1.6	1.6
Subtotal	**2.7**	**2.7**
Accumulated depreciation	(2.6)	(2.5)
Total	**0.1**	**0.2**

Note 21. Bank

38. The credit balance of $0.9 million as at 31 December 2003 comprises balances of PSD bank accounts and outstanding cheques drawn from PSD zero-balance bank accounts.

Note 22. Accounts payable

39. Total accounts payable as at 31 December 2003 amounted to $5.8 million, an increase of $0.6 million compared with the balance as at 31 December 2002. Included in total accounts payable were liabilities to suppliers and National Committees.

Note 23. UNICEF inter-office account

40. This reflects the net result of transactions between PSD and other UNICEF offices, which, as at 31 December 2002, was $282.7 million. The balance includes monies advanced as working capital to PSD. PSD earnings for each fiscal period are transferred to UNICEF via this account.

Statement III

Note 24. Comparison of 2003 actual results with budget

41. Major highlights of PSD performance in 2003 compared with the approved budget are as follows:

(a) Gross proceeds from UNICEF card and gift sales were $14.4 million, or 10.5 per cent more than budget;

(b) National Committee expenditures related to sales of cards and gifts were $14.4 million higher than the budget, or 42.1 per cent. The increase was mainly due to the allocation of expenditures between the two revenue streams (sales and private sector fund-raising) in the new revenue and expenditure report introduced for 2003 reporting;

(c) Net proceeds from private sector fund-raising activities were $84.5 million, or 48.6 per cent higher than the budgeted amount of $174.0 million;

(d) Total net proceeds from PSD-related activities (regular resources) were $82.5 million, or 29.0 per cent higher than budget;

(e) The total net income after adjustments (regular resources) was $89.0 million, or 44.4 per cent higher than the budget of $200.4 million;

(f) The net consolidated income for both regular resources and other resources was $91.2 million, or 24.6 per cent higher than the budget of $370.4 million.